

FINAL STIPULATION AS FILED 11/15/01

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

November 14, 2001

TDS TELECOMMUNICATIONS CORPORATION,
COBBOSSEECONTEE TELEPHONE COMPANY,
HAMPDEN TELEPHONE COMPANY,
HARTLAND & ST. ALBANS TELEPHONE
COMPANY, THE ISLAND TELEPHONE
COMPANY, SOMERSET TELEPHONE
COMPANY, WARREN TELEPHONE COMPANY,
AND WEST PENOBSCOT TELEPHONE AND
TELEGRAPH COMPANY

Docket No. 2001-664

Petition for Approval of Contract with
Affiliated Interests - 35-A M.R.S.A. § 707

REVISED STIPULATION APPROVING MASTER AFFILIATE TRANSACTION AGREEMENT

TDS Telecommunications Corporation (“TDS Telecom”), Cobbosseecontee Telephone Company,¹ Hampden Telephone Company, Hartland & St. Albans Telephone Company, The Island Telephone Company, Somerset Telephone Company, Warren Telephone Company, West Penobscot Telephone and Telegraph Company (the “TDS Maine Telcos”) (TDS Telecom and the TDS Maine Telcos shall sometimes be referred to as the “TDS Companies”), and the Office of the Public Advocate (“OPA”) stipulate and agree as follows:

I. PURPOSE

The purpose of this Stipulation is to settle all issues related to the Master Affiliate Transaction Agreement proposed by the TDS Companies. The parties wish to resolve these issues without a full, adversary hearing on the issues raised and to expedite the Public Utilities Commission’s consideration and resolution of these matters. The provisions agreed to herein have been reached as a result of information gathered through

¹ Cobbosseecontee Telephone Company has been added to the caption and included as a TDS Maine Telco. because its acquisition by TDS Telecom was completed on October 3, 2001. See the discussion below.

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informal discovery and discussion among the parties and the Commission's Staff ("Staff").

II. PROCEDURAL HISTORY

Telephone and Data Systems, Inc. ("TDS"), the parent of TDS Telecom, is a diversified telecommunications company based in Chicago, Illinois, and incorporated under the laws of the State of Delaware. TDS is the 100% owner of TDS Telecom. TDS Telecom is the 100% owner of the TDS Maine Telcos.

TDS, TDS Telecom, and various of their affiliates provide a wide variety of management, financial, engineering, purchasing, marketing, and other goods and services to each to the TDS Maine Telcos, and each of the TDS Maine Telcos provides certain goods and services to other TDS Maine Telcos.

To date, these affiliated transactions have been provided pursuant to a number of different agreements that have been reviewed and approved by the Commission under 35-A M.R.S.A. § 707(3). As additional local exchange telephone companies in Maine have been acquired by TDS (through TDS Telecom), each new company has sought and obtained Commission approval for similar affiliate contracts. These approvals were granted most recently to Hampden Tel. in Order dated February 15, 1995, in Docket No. 94-388.²

Petitioners now seek to replace the various individual affiliate agreements currently in place with a single agreement entitled "Master Affiliate Transaction Agreement." The proposed agreement is a change in documentation only; no change in operations is proposed. This new form of agreement is proposed for use by all TDS companies nationwide in an effort (a) to combine the different individual agreements between pairs of companies into a single agreement that encompasses every TDS entity nationwide, and (b) to provide administrative ease and simplicity to both Petitioners and the Commission as additional TDS service entities are added or created or existing TDS service entities are merged, consolidated, or otherwise eliminated. This new agreement changes only the form of the current agreements; the substance of those agreements, the manner in which the various TDS entities operate, the manner in which the goods and services are provided, and the manner in which costs are charged to affiliates will not change from current practice.

In addition to approval by the Commission, TDS Telecom and various TDS telephone companies operating in other states will be filing the Master Affiliate Transaction Agreement with, and/or seeking its approval from, a number of other state

² The Commission recently approved use of the forms of agreements approved for Hampden Tel. by Cobbosseecontee Telephone Company as part of its acquisition by TDS. See the discussion below.

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and federal agencies, including but not limited to the Rural Utilities Service of the United States Department of Agriculture (“RUS”). During this period, the Master Affiliate Transaction Agreement shall take effect for companies in each state as necessary approvals (if any) are obtained by the companies in that state.

On May 9, 2001, the TDS Companies filed a Petition seeking approval of the acquisition of Cobbosseecontee Telephone and Telegraph Company³ (“Cobbosseecontee Tel.”), a Maine telephone utility currently providing local exchange telephone service in West Gardiner, Manchester, Litchfield and Farmingdale, Maine. That Petition was given Docket No. 2001-330.

That May 9, 2001, Petition also sought approval pursuant to 35-A M.R.S.A. § 707(3) of a Master Affiliate Transaction Agreement⁴ that would be entered into following the TDS acquisition of Cobbosseecontee Tel. to apply to all transactions between Cobbosseecontee Tel., on the one hand, and, on the other, all affiliated interests, including TDS, TDS Telecom, and all affiliates of both TDS and TDS Telecom. While not included as a part of that Petition, following completion of the acquisition of Cobbosseecontee Tel. and approval of the Master Affiliate Transaction Agreement for Cobbosseecontee Tel., the TDS Maine Telcos anticipated petitioning the Commission for approval of the Master Affiliate Transaction Agreement for all of the TDS Maine Telcos.

On July 19, 2001, the TDS Companies met with the Staff and the OPA to discuss the proposed Master Affiliate Transaction Agreement. At that meeting the TDS Companies provided a draft of the proposed Master Affiliate Transaction Agreement.

On August 23, 2001, the TDS Companies, Cobbosseecontee Tel., and the OPA filed a Stipulation in Docket No. 2001-330 (the “8/23/01 Stipulation”) approving the acquisition of Cobbosseecontee Tel. That Stipulation did not resolve the approval sought for the Master Affiliate Transaction Agreement but instead left that Agreement for further on-going negotiations which resulted in this proposed Stipulation. Instead, the 8/23/01 Stipulation approved for interim use by Cobbosseecontee Tel. the form of affiliated interest agreements previously approved by the Commission for Hampden Tel., the most recent acquisition in Maine by TDS, and provided that the Master Affiliate Transaction Agreement, once approved, would apply to Cobbosseecontee Tel. as well.

On September 24, 2001, Petitioners initiated this docket seeking approval of the Master Affiliate Transaction Agreement.

The acquisition of Cobbosseecontee Tel. was consummated on October 3, 2001, such that Cobbosseecontee Tel. is now a wholly owned subsidiary of TDS Telecom, an

³ Cobbosseecontee Tel. was renamed Cobbosseecontee Telephone Company as a part of its acquisition by TDS Telecom.

⁴ The “Master Affiliate Transaction Agreement” was originally named “Master Service Agreement.” The title (and other provisions) of that initial document has been changed as a result of negotiations between the parties.

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Affiliated Interest of each of the Petitioners, and subject to the provisions of this Stipulation. The caption of this Docket has been amended to include Cobbosseecontee Tel. as a named party.

The TDS Companies, Staff, and OPA continued to discuss and negotiate the Master Affiliate Transaction Agreement, meeting in person or by conference call on August 28, September 28, October 16, October 23, and October 26, 2001, which discussions resulted in this Stipulation.

The parties agree that the OPA is a necessary party to this proceeding and to this Stipulation.

III. STIPULATION PROVISIONS

1. TDS is a diversified telecommunications company based in Chicago, Illinois, and incorporated under the laws of the State of Delaware. TDS is the 100% owner of TDS Telecom. TDS Telecom is the 100% owner of the TDS Maine Telcos.

2. The TDS Maine Telcos are affiliates of each other under 35-A M.R.S.A. § 707(1)(A) through common ownership by TDS Telecom. The TDS Companies are also affiliates of TDS and all other TDS entities because of TDS' ownership of TDS Telecom.

3. The provisions of this Stipulation shall apply to any Maine Public Utility that in the future becomes an affiliated interest of any of the TDS Maine Telcos.

4. The Master Affiliate Transaction Agreement is hereby approved under 35-A M.R.S.A. § 707(3) for each of the Petitioners and for each Maine Public Utility that in the future becomes an affiliated interest of any of the Petitioners.

5. The parties agree that this approval is subject to the following conditions:

- a. The Commission's approval of the Master Affiliate Transaction Agreement shall be subject to the terms, conditions, and requirements set forth in 35-A M.R.S.A. § 707(2).
- b. Pursuant to 35-A M.R.S.A. § 707(3)(D), Commission approval of the Master Affiliate Transaction Agreement shall in no way limit or restrict the powers of the Commission in determining and fixing any rate, fare, toll, charge, classification, schedule, or joint rate of any current or future TDS Maine Telco.
- c. The TDS Maine Telcos shall annually, at the time the PUC Annual Reports are due, file with the Commission's Finance Director a statement identifying each Allocation Basis that has changed during

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the prior calendar year. If requested, such filing shall be accorded confidential treatment. For the purpose of this subparagraph, an "Allocation Basis" is an allocation methodology used by TDS, TDS Telecom, and/or their affiliates to allocate their costs as described in subparagraphs 3.2.5(b)(ii) and (iii) and in Attachments A and B of the Master Affiliate Transaction Agreement. In addition, if requested by the Commission, the Commission's Finance Director, or the OPA, the TDS Maine Telcos shall provide a copy of the most recent cost center assessment report to the Commission's Finance Director and the OPA, which report shall be accorded confidential treatment in accordance with Protective Order No. 1 (Accounting and Computer Programs) entered in this docket on September 27, 2001.

- d. In accordance with paragraph 6.7 of the Master Affiliate Transaction Agreement, the Master Affiliate Transaction Agreement shall be governed, construed, and enforced in accordance with Maine law for any proceeding before or involving the Commission.

6. The parties request that the Commission delegate to its Finance Director the power to review and approve any change to the Master Affiliate Transaction Agreement resulting from the approval process in other jurisdictions, including but not limited to the RUS.

7. Commission approval is hereby granted:

- a. to approve retroactive to February 15, 1995, the use by each of the TDS Maine Telcos of affiliated interest agreements that are substantively the same as those approved by this Commission on February 15, 1995 in Docket No. 94-388, for use by Hampden Telephone Company, the most recent approval granted by the Commission to a TDS Maine Telco for such agreements, and
- b. for any contract of any TDS Maine Telco with any affiliate interest that did not receive any required 35-A M.R.S.A. § 707(3) approval, provided (i) such contract was entered into after April 1, 1996 (the approximate date the particular cost accounting methodology described in the MATA was put in place⁵), and (ii) all charges under such contract were computed in accordance with the MATA.

⁵ Petitioners updated their accounting software in the Spring of 1996. One component of that update was the implementation of the particular cost center assignment and cost allocation methodology described in the MATA. Prior to April 1, 1996, Petitioners and their affiliated interests used a different accounting software that incorporated

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GENERAL PROVISIONS

8. The parties to this Stipulation hereby waive any rights that they have under 5 M.R.S.A. § 9055 and related Commission Rules to the extent necessary to permit the Staff to discuss this Stipulation and the resolution of this case with the Commission, without the participation of any other party.

9. The record on which the Commission may base its determination in this matter shall consist of this Stipulation, all documents provided by Petitioners in this proceeding, and any other material furnished by Staff to the Commission, either orally or in writing, at the time of the Commission's consideration of this proceeding.

10. The Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

11. This Stipulation represents the full agreement between all parties to the Stipulation and rejection of any part of this Stipulation constitutes rejection of the whole.

Dated: November 14, 2001

John C. Lightbody, Esq.
Attorney for TDS Telecommunications
Corporation, Cobbosseecontee Telephone
Company, Hampden Telephone Company,
Hartland & St. Albans Telephone Company,
The Island Telephone Company, Somerset
Telephone Company, Warren Telephone
Company, and West Penobscot Telephone and
Telegraph Company

Dated: November 15, 2001

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a cost assignment and cost allocation methodology that was conceptually similar to the methodology of the MATA but was not as comprehensive as the methodology utilized in the new accounting system.